



**Milwaukee County Employees' Retirement System (ERS)  
December 5, 2022 Actuarial, Audit, and Risk Committee Meeting  
MINUTES**

**Call to Order**

Actuarial, Audit, and Risk Committee Chair Best called the Actuarial, Audit, and Risk Committee meeting to order at 10:34 a.m. on Monday, December 5, 2022. The meeting was held virtually due to Milwaukee County's and the City of Milwaukee's Stay Safe MKE initiative limiting gatherings in light of the COVID-19 pandemic.

**Committee Members Present:**

Nicole Best  
Jeremy Lucas  
David Robles  
Rob Worzalla

**Other Pension Board Members Present:**

Ron Nelson  
Jeff Gollner

**Others Present:**

Erika Bronikowski, Retirement Plan Services  
Jacob Augustine, Retirement Plan Services  
Natasha Ford, Retirement Plan Services  
Annamarie Kirsanoff, Retirement Plan Services  
Jessica Culotti, Reinhart Boerner Van Deuren  
Judd Taback, Office of Corporation Counsel  
Melinda Lawrence, Office of Corporation Counsel  
Matthew Strom, Segal Consulting  
Kenneth Anderson, Aon  
C.J. Pahl, Milwaukee County Financial Services  
Director  
Daniel Laurila, Milwaukee County Operating Budget  
Management

**1. Topic: Chairperson's Report**

Committee Chairperson Best welcomed the Committee members to the meeting and noted that the Committee has been working diligently on a number of items throughout the last year. Other than the fact that there are important items to discuss on today's agenda, Chairperson Best did not have any additional comments.

**2. Topic: Meeting Minutes – October 27, 2022**

A motion by Trustee Robles, seconded by Trustee Worzalla, was made to approve the October 27, 2022, Actuarial, Audit, and Risk Committee Meeting minutes. The motion passed unanimously.

**3. Topic: Experience Study**

Ms. Bronikowski provided a summary of this topic from the Committee's two previous meetings held in October. She explained the actuary presented the 2022 experience study with recommended updates to the Board's demographic and investment assumptions. The Committee requested information regarding the impact of dropping ERS' assumed rate of return from 7.5% to 7.25%, 7.0%, and 6.75%. The Committee then requested information regarding the impact of dropping the Plan's assumed rate of return by a tenth of a percent per year (from 7.5% to 7.4%, 7.3%, 7.2%, 7.1% and 7.0%). Ms. Bronikowski explained that this topic has been further discussed by the Investment Committee and Appeals and Rules Committee. Input has also been provided by Milwaukee County Stakeholders from the Comptroller's and Budget office.

Ms. Bronikowski confirmed that the document presented details about what ERS and contributions would look like if the most recent valuation was completed with the recommended assumptions, but does not take into consideration future investment returns or losses. She noted the 2023 employee contribution rates are already set, so any actions that the Committee makes regarding assumption changes will not affect the 2023 rates. Ms. Bronikowski introduced Mr. Strom from Segal Consulting to further present the document that was provided to the Committee.

Mr. Strom explained that when looking at the most recent valuation, each 10-basis point decrease in the assumed rate of return equates to roughly an increase to contributions of \$1.8 to \$1.9 million. Mr. Strom

presented the report showing the impact of decreasing the assumed rate of return to 7.4%, 7.3%, 7.2%, 7.1% and 7.0%. The recommendation from the actuary after completing the experience study, is to reduce the investment return to 7.0%. If the rate is reduced to 7.0%, the actuarially determined contributions would be \$80.7 million when looking at the most recent valuation. Mr. Strom explained that if the Board would like to move to 7.0% now, a policy could be adopted to phase in the outputs of assumption changes rather than phasing in the assumption changes themselves. The Board could adopt the 7.0% assumed rate of return and phase in the outputs through to the next experience study. If the assumed rate of return is phased in to eventually get to 7.0%, not having paid the actuarially determined contributions would be reflected on the back end due to the time value of money. Recognizing the 7.0% now and smoothing out the impact over time does include the cost of the time value of money and helps for budgeting purposes.

Trustee Best asked how the employee contribution rates would be affected if the assumed rate of return were to be reduced to 7.0% at the beginning of 2024 and the liabilities were spread out. Mr. Strom stated that he believes that employee contribution rates could also be smoothed as an output item similar to employer contributions.

Trustee Worzalla noted that the current public safety contribution rates are 9.9%, scheduled to drop to 9.8% next year and questioned if the contribution rates for public safety employees will remain at 9.8% in 2023. Mr. Strom confirmed that the 2023 rates are set and in the budget. The rates shown in the experience study are a conceptual change.

Trustee Worzalla asked if there is a breakdown showing why public safety rates increase at a higher rate than general employees, even though there are fewer public safety employees compared to general employees at the County. Ms. Bronikowski explained that in general, public safety employees tend to stay employed with the County longer and often until retirement, so the value of the benefits per person is higher. Additionally, public safety employees are eligible to retire earlier, and death and disability benefits occur more frequently than general County employees. Further, public safety employees receive more frequent and larger salary increases, which leads to higher benefits. Ms. Bronikowski continued by stating that some of the differences were explained in the experience study, but a comprehensive written description of the differences between the two contribution rates could be provided to the Committee.

Mr. Strom explained the percentage increase of public safety contribution rates from 10.9%, at an assumed rate of return of 7.5%, to a 12.4% contribution rate at an assumed rate of return of 7.0% is not too dissimilar to the percentage increase for general employees. Because of this, he believes that something in the demographic assumptions is increasing the public safety rate more than the general employee rate. Trustee Worzalla confirmed that a breakdown would be appreciated and questioned why the groups were separated in general.

Trustee Lucas asked for additional information on the difference between moving the assumed rate of return to 7.0% and smoothing it over time versus the pay as you go method. Trustee Best and Trustee Lucas clarified the question as because there is an unknown investment return over the next five years, would it be better to make two definitive changes knowing the actual investment returns at those points in time? Mr. Strom explained that if a step-down approach is used, liabilities, funding percentages, and contribution rates are all calculated at the set rate. He stated that if the Committee thinks the best answer is 7.0%, output smoothing on the actuarial determined contributions could be used. Output smoothing will show what these amounts are at an investment return of 7.0% but only 20% of the change would be recognized each year, looking at a five-year period.

In response to a question from Trustee Robles, Mr. Strom confirmed that in determining the recommended assumed rate of return, the actuary calculated what the fiftieth percentile return would be looking at ERS' asset allocations. Those calculations resulted in a percentage of roughly 7.05%, which is why the recommendation is 7.0%. Mr. Strom explained that this means that ERS is expected to meet or exceed the 7.0% assumption 51% of the time. While the experience study did show what other systems are doing in terms of return assumptions, the 7.0% recommendation was based on analysis that was done on the ERS Portfolio.

Trustee Best posed a question regarding the risks of assuming a 7.0% assumed rate of return right away versus smoothing the funding over the next five years and where each of these scenarios could go wrong for the County or its employees. Mr. Strom explained that using an output or direct rate smoothing approach, the time value of money factor is built in. There is more risk if output smoothing is not used, but it may only be

marginally better. Trustee Best mentioned that from an accounting perspective it may be fiscally challenging if the assumed rate of return is changed every year, knowing that the goal is to get it to 7.0%, even though these changes would be known subsequent events.

Trustee Best requested that RPS prepare written education materials so that any approved assumption change is as transparent as possible. Noting Trustee Worzalla's concerns, Trustee Best also requested an analysis on whether employee contributions for the public safety employees are negotiable or are they part of plan design. Ms. Bronikowski confirmed that RPS will work with counsel to prepare an analysis on which benefits are and are not negotiable. Ms. Culotti confirmed that this can be provided.

Trustee Best then presented a question that Trustee Nelson provided in advance regarding negotiations of cost-of-living compensation adjustments for active employees. Ms. Bronikowski provided some context regarding employee pay and confirmed that during the budget process each year, Milwaukee County employee pay rates are reviewed. Historically, general employees pay has increased by 1% per year. In 2022, general employees received two 2% increases. In 2023, one 2% increase is planned for general employees. The Deputy Sheriffs Association is currently in negotiations for their next collective bargaining agreement, and they do have different compensation schedules from the rest of the employee population.

In response to a question from Trustee Best regarding the County's opinion, Ms. Pahl confirmed that the Comptroller's Office would like to get to an assumed rate of return of 7.0% in a way that the County can handle the impact of that change. Ms. Pahl stated that it would be helpful to see an example of the output smoothing method that Mr. Strom had mentioned in the discussion before a decision is made. The last time the assumed rate of return was changed it was done using a step-down method, which worked for the County. Without speaking for the County or the Budget office, Ms. Paul explained that whatever is easiest for the budget would likely be the option they would prefer. Mr. Strom explained that the cost of output smoothing could be closer to \$9.2 to \$9.5 million taking into consideration the time value of money, versus a \$8 million increase in contributions when dropping straight to 7.0%.

Trustee Robles commented that the suggested assumed rate of return change is based on assumptions and projections, but when looking at just investment returns through this year, ERS has exceeded expectations. He question how accurate the actuarial assumptions are based on how the economy is currently performing. Trustee Robles continued by stating that he believes that a step-down approach is appropriate. ERS could review the assumed rate of return year after year during the actuarial valuation, but ultimately, the assumed rate of return should be adjusted in a direction that Segal is suggesting. He noted that perhaps moving to a rate of 7.4% in the first year, a rate of 7.2% in year three, and then a rate of 7.0% in the final year is an appropriate decision, depending on what the experience has actually been.

In a response to a question from Trustee Robles, Ms. Pahl confirmed that Act 10, which is mandated in State statute, established the requirement for employees to contribute to their retirement plan and fund one half of the annual required contributions. The 2023 contribution requirements are based on the January 1, 2022, actuarial valuation. Changes in assumptions and any investment losses that occur and are captured in the January 1, 2023, actuarial valuation, will affect 2024 contribution rates.

Trustee Nelson explained that ERS is out of line with some of its peers in terms of investment return assumptions. He noted if the rate of return assumption is too high right now, that means that current employees are paying less but future employees will be required to pay more. While the experience will change over the next five years, that does not change the fact that ERS is out of line right now when looking at the experience study. In a response to a comment from Trustee Nelson, Trustee Best confirmed that while this year has been volatile, the experience study uses an actuarial analysis that takes long term cycles into account.

Trustee Lucas expressed concern that if ERS decides to go to an assumed rate of 7.0%, whether the employee contribution rates would be eligible to be smoothed under the State Statute. Trustee Lucas asked if this could be confirmed.

Trustee Worzalla asked if it was possible to reduce the assumed rate of return to 7.4%, and then evaluate the rate each year to determine if the rate needs to be reduced further. Mr. Strom confirmed that ERS could review the investment return assumption on a year-by-year basis.

Trustee Best questioned whether the Committee can reduce the rate to 7.4% when the actuary has recommended otherwise. Mr. Strom explained that the analysis that Segal completed is based on the available data showing that the breakeven point for the investment return assumption is 7.05%, which is why the recommendation is 7.0%. The interest rate is the Pension Board's assumption, and it can adopt a rate different than the recommendation, but there is a lower chance that ERS is able to achieve the 7.4% return. Many pension systems will accept and adopt the recommendations of the actuary, but it is not uncommon for a pension system to adopt an assumption other than what was recommended, especially with the circumstances that have been brought up by the Committee.

Trustee Nelson explained that with the current assumption, ERS is expected to earn 7.5% going forward but that could change over time. It is hard to argue that there is any credible information that says that 7.4% is a likely number today. Trustee Nelson expressed concerns about planning for assumption changes every year, since the budget process and Pension Board is not set up to evaluate this on an annual basis. In response to a question from Trustee Nelson, Mr. Strom explained that he would look into what the actuarial report would look like if a different assumption was chosen but said he is less concerned with what the actuary would say versus the auditor's opinion.

Trustee Robles clarified that he was suggesting that ERS decrease the assumed rate of return to 7.4% in 2024, then to 7.2% in 2026, and then to 7.0% in the final year to gauge what the experience was, which might be easier for County budgeting purposes. Trustee Robles explained that all of the information presented is based on the values as of January 1, 2022. When the January 1, 2023 numbers are available, the valuation could change dramatically. This suggestion would show that ERS is making the steps to do what is proposed by the actuary but doing so in a way that provides plenty of notice to the County.

Trustee Best explained that since actuarial reporting looks at trends over a long period of time, the Committee might not have the best information at any point to make the best decision from year to year. If the assumed rate of return is reduced too slowly or if the rate should have actually been less than 7.0%, this could make things worse for ERS and its members.

Ms. Culotti explained that while there have been good discussions about the various options that have been presented, choosing to disregard the actuary's recommendation would require clear reasons and documentation of those reasons. What the actuary has recommended is the gold standard looking at the data right now, even if there is some concern about increasing employee contributions. If the County had unlimited funds, there would be no question in moving the rate to 7.0% in 2024. The actuary's recommendation of 7.0% is the goal, and it is the Committee's decision on how to get to that point.

In response to a question from Trustee Best, Mr. Strom confirmed that he will look into the ability for ERS to spread the employee contribution rates and funding over a period of time and will provide those findings to the Committee. Trustee Best asked what the timing constraints would be if the Committee makes recommendations for a January 1, 2024 effective date. Ms. Bronikowski noted that RPS would need a couple months' notice for any assumption changes and an effective date of January 1<sup>st</sup> of any given year is preferred. Mr. Laurila confirmed, that from the perspective of the County's Budget office, the start of a year would work best for administrative purposes, and they would like to be informed of any assumption changes by April or May.

In response to a question from Trustee Lucas, Ms. Bronikowski confirmed while it would be a tight turnaround, RPS would be able to implement the actuary's suggested demographic assumption changes by January 1, 2023, if the Committee would like to adopt those changes without changing the assumed rate of return at this time. Trustee Nelson confirmed that while deciding on changing the demographic changes now would require the Committee to decide on fewer factors in the future, he would prefer to make the changes at the same time. Trustee Best confirmed that some of the demographic assumption changes moved positively versus negatively and making a change now would have an additional impact to the County. In response from a question from Mr. Strom, Trustee Best confirmed that any decision that the Committee makes regarding assumption changes would occur in 2023, which will affect the contribution rates beginning January 1, 2024.

Ms. Bronikowski explained that she will ask the auditor to confirm how the rate of return or other assumption changes that are made in early 2023 would affect the December 31, 2022 financial statements.

Trustee Robles confirmed that his assumption was that the Committee would adjust the rate of return in 2023 for the purposes of setting the 2024 contributions. Trustee Robles mentioned that reviewing the previous meeting minutes, the Committee could decide on the demographic assumption changes without deciding on the assumed rate of return at this time. Trustee Best noted her concerns of approving changes that would go into effect now that goes in the opposite direction of the aggregate assumption changes, since the demographic assumption changes have both positive and negative effects. Since this would also create additional pressure of RPS, there may not be a great benefit to making the demographic changes now versus changing them when the rate of return is decided.

Trustee Best requested that input from the auditors be gathered regarding the assumed rate of return change schedules that have been discussed as well as the timing of a decision and how that would look from an audit perspective. Ms. Bronikowski confirmed that she would discuss these questions with the auditors.

Trustee Best questioned whether the Committee would like to make a motion today or if it would be appropriate to wait for the additional information requested. Trustee Robles confirmed that the next Actuarial, Audit, and Risk Committee is scheduled for January 25, 2023, which would mean if a recommendation were made during that meeting, it would go to the Pension Board on February 15, 2023. Trustee Worzalla confirmed that he would prefer to wait to decide.

Trustee Lucas confirmed that he was comfortable moving this discussion to January and requested a listing of the follow-up items discussed during this meeting. Trustee Robles requested that a projection of the step-down schedule he suggested be provided by the actuary.

Trustee Nelson asked the Committee if they needed any additional information from the investment side. Trustee Best stated that she cannot think of additional information that would be helpful outside of what has already been requested. Trustee Best asked that all of the materials requested during the meeting today be provided and circulated to the Committee members soon, so that if additional questions come up and the Committee would like to schedule an additional meeting prior to the January 25, 2023, meeting, that could be done.

#### **4. Topic: Fiduciary Insurance**

Ms. Bronikowski explained that each year, the Pension Board works with Milwaukee County's Risk Management Department to bind their fiduciary insurance and introduced Mr. Anderson from Aon to discuss this topic further.

Mr. Anderson presented the fiduciary liability structure for ERS and compared the differences from this year to the prior year as well as the renewal terms. In 2020, ERS had three insurers, but this year the primary insurer, AIG, would only offer \$5 million in limits instead of \$10 million. Because of this, additional insurers needed to be used. Despite the fact that rates in the insurance market are increasing, Aon was able to drive the overall premium down from last year. The total premium for this renewal is \$299,881. Aon and Risk Management had budgeted a 12.5% increase, but the premiums were stagnant.

**A motion to recommend that the Pension Board approve the fiduciary insurance renewal was made by Trustee Robles and seconded by Trustee Lucas. The motion passed unanimously.**

Prior to moving on to the next topic, Trustee Best asked if there was cyber insurance coverage for ERS. Ms. Bronikowski confirmed that she will check with Risk Management but believes that ERS is covered under Milwaukee County's policy.

#### **5. Topic: Data Governance Audit**

Ms. Bronikowski explained that in September, Milwaukee County Audit Services, who are part of the Comptroller's Office, contacted RPS regarding an audit of its data governance practices. To respond, RPS is preparing a comprehensive Information Security and Data Governance Policy document. This document will be brought to the Actuarial, Audit, and Risk Committee early next year when a draft is prepared. This audit contains a comprehensive list of questions pertaining to how information is stored and how RPS responds to requests for that information. In preparing the responses to these questions, it was decided to also prepare a policy to document these responses.

**6. Topic: Employee Data Record Access**

Ms. Bronikowski explained that during the review of the 2022 valuation and preparation of the Annual Report in June, it was noted that RPS lost read-only access to employee payroll records in early 2021 when a new payroll system was implemented. This was a concern because RPS could no longer easily verify pension calculation inputs, including employee hours and earnings. Historically, RPS utilized read-only access to the payroll system for verifying the information fed into the pension administration system. Paystub data was reviewed for members in years where there were employment changes or pay code types that might affect an individual's pensionable service or earnings. On November 1, 2022, the payroll team in the Comptroller's Office granted RPS read-only access to the payroll system. This should resolve the auditor's concerns that were raised in the last two audits.

**7. Topic: 2023 RPS Budget**

Ms. Bronikowski presented the proposed draft 2023 Pension Board Budget. The budget is split up into four major categories: investment expenses, administrative expenses, capital purchases, and expenses paid by Milwaukee County directly from the tax levy. Ms. Bronikowski stated that the primary changes from the prior draft are to the expenses paid by Milwaukee County directly from the tax levy. That information was finalized in the County's 2023 budget, is informational, and is allocated from Milwaukee County.

In response to a question from Trustee Robles, Ms. Bronikowski confirmed that the line item for actuarial fees does not reflect the new contract with Segal. The draft contract for services starting in 2023 has not yet been received from Segal but those numbers will be reflected in the budget. There was also additional padding included in the actuarial services bucket for complicated pension calculations and review of Ordinance and Rule changes. In response to an additional question from Trustee Robles, Ms. Bronikowski explained that the chargeback in the Retiree Benefit Portion of Maintenance & Hosting line item is due to an agreement with Milwaukee County because the Vitech pension system also administers retiree life and health insurance which is not paid by the pension fund. The Vitech line item includes the additional funds that were set aside to be used in the event that the warranty period for the pension system needed to be extended or additional work hours are required of Vitech to ensure that upcoming processes run smoothly.

**A motion to recommend that the Pension Board approve the 2023 RPS Budget, given the updates in the areas noted, was made by Trustee Robles and seconded by Trustee Lucas. The motion passed unanimously.**

**8. Topic: Adjournment**

The meeting adjourned at 12:31 p.m.